FRI-2G.404-1-EM2-08

ASPECTS OF THE LEGAL AND FINANCIAL SYSTEM OF THE PALESTINIAN AUTHORITY [23]

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Abstract: *Palestine is at the centre of public discussion practically all over the globe. Commenting on humanitarian and military aspects, however, it is necessary to pay attention to its economic (including monetary) and legal systems. They are of fundamental importance for stabilization and subsequent economic development. This paper examines precisely these two aspects, which are not really part of the otherwise dynamic discussion about Palestine. The Palestinian economy operates with a multi-currency system—mainly the Israeli new shekel and the Jordanian dinar but also with the U.S. dollar in the Gaza strip. This limits the monetary sovereignty and exposes the economy to external shocks and inflation volatility. This paper also explores the fiscal dependence on Israel It arises from the tax transfers between Israel and Palestine. A Palestinian digital currency or a multi-currency basket could be potential solutions for greater stability and autonomy. The paper further discusses the evolution of the Palestinian legal system, that was established after the Oslo agreement. It presents the structure of courts and legal institutions that Palestine would need for judicial independence. The conclusion is that the current financial, legal and institutional basis is suitable for ensuring future stability.*

Keywords: *Palestine, currency, law, Oslo agreement*

INTRODUCTION

Palestine comprises of two main territories - the West Bank and the Gaza Strip. It is not an independent state but it tries to build its own financial and legal system. The Palestinian Monetary Authority (PMA) was created in accordance with the Oslo Agreement in order to manage these territories. The Palestinian economy uses several foreign currencies because it has no right to issue its own national one. The Israeli new shekel is the main currency. The Jordanian dinar and the U.S. dollar are also used. This system is created by the Paris Protocol in 1994. It limits control of Palestine over its own money. It also makes the economy more sensitive to adverse shocks and inflation. The legal system is based mainly on Islamic law and international agreements. It aims to bring order and stability, but the system is still relatively fragile. The financial and legal systems show how Palestine tries to achieve resilience and development despite its limited independence.

EXPOSITION

The Palestinian territories discussed in this paper include the West Bank and the Gaza Strip. These territories have no independent national currency yet. There are three foreign currencies which are in use, with the Israeli shekel being the main currency. It is the official means of payment for most of the daily transactions, for salaries and for government operations (UNCTAD, 2020). It is also used for tax collection, imports and public expenditure. The Jordanian dinar is used mainly in the West Bank. Its main application is for savings and for the acquisition of real estate. The U.S. dollar is the third most important currency. It is used mainly in the Gaza Strip for international trade, payments and transactions with international organizations (Khalidi, 2017).

[23] This research was conducted within the framework of project 2025-BM-01 "Transformation of Socio-Economic Systems through Integration and Digitalization", supported by the Scientific Research Fund of the University of Ruse "Angel Kanchev".

Table 1. Use of currencies in Palestine

Currency	Used in	Typical use
Israeli new shekel (ILS)	West Bank & Gaza	Daily transactions, salaries, taxes
Jordanian dinar (JOD)	Mainly West Bank	Savings, real estate, large purchases
U.S. dollar (USD)	Mainly Gaza	International trade, remittances, NGO payments

The Palestinian Monetary Authority (PMA) manages the banking sector and maintains the financial stability in Palestine. It has no right to issue a national currency. This restriction comes from the Paris Protocol on Economic Relations (1994). This protocol is part of the Oslo Agreement. That is why Palestine operates with a multi-currency system and has no monetary sovereignty.

The absence of a national currency has big consequences for the economic stability and policy autonomy of Palestine. The PMA cannot have an independent monetary policy or act as a lender of last resort. It cannot issue money or adjust interest rates (Samara, 2016). These limitations deprive Palestine of the ability to manage inflation, to stabilize liquidity or to deal with external shocks (Penchev, 2021). The money supply is dependent on the Bank of Israel. This means that the Palestinian economy is exposed to the external monetary conditions (Arnon & Weinblatt, 2001). This dependence on multiple foreign currencies creates structural problems in Palestine. The fluctuations of the exchange-rate between the three currencies brings uncertainty for the businesses and the investors. This, in turn, raises transaction costs and reduces competitiveness (Khalidi, 2017).

The fiscal policy is constrained in a similar way. The Paris Protocol requires that the tax revenues are collected in shekels by Israel. After that, they can be transferred to the Palestinian Authority (PA). These transfers are sometimes delayed or even stopped for certain political reasons. This leads to limited availability of money as well as to interruptions in public-sector payments (UNCTAD, 2020). This dependence weakens the fiscal predictability. Hence, the Palestinian Authority relies on external aid to a large extend. The absence of monetary sovereignty creates a fragile macroeconomic structure, where external political and financial pressures directly affect domestic stability (Hilal, 2018; Roy, 2021).

In recent years, these vulnerabilities have a direct influence on inflation trends. Inflation in the Palestinian territories is volatile, especially in the Gaza strip. In 2023, the consumer price inflation averaged about 5.9 %, but by mid-2024 it surged above 50 %, with rates over 200 % in Gaza. The inflation in the West Bank remained relatively stable at about 2 to 3 % (FocusEconomics, 2024). The main causes of inflation are the dependence on imports and currency constraints. They make the Palestine Autonomy very sensitive to external price shocks (Hilal, 2018). The lack of a sovereign currency limits the ability of PMA to reduce these effects through adjustments of the interest-rate or the exchange-rate (Arnon & Weinblatt, 2001). The restrictions of trade in Gaza naturally lead to inflation, especially in food and energy sectors (PMA, 2024).

There are several options for reforms which could improve the monetary stability in the Palestinian territories. One of them is to introduce a Palestinian digital currency. It could be managed by the Palestinian Monetary Authority. This would help to control the liquidity and to reduce the dependence on cash transfers from Israel (PMA, 2022). Another possibility is to create a currency basket system. This can include the currencies used now - the shekel, dinar and the US dollar. The weights in the basket can be adjusted according to their proportions of use. This approach would be similar to the model of the Special Drawing Rights (SDR) of the IMF (Arnon, 2020). Such a system could reduce the fluctuations exchange-rate and make the economy more predictable. However, these reforms require a strong political stability and a coordination with regional monetary authorities in Israel and Jordan (Hilal, 2018).

The use of multiple currencies restricts the economic sovereignty of the PMA. Monetary independence is still a challenge under the current political conditions. The improvement of the fiscal coordination and the development of digital financial tools could improve the resilience of the PMA. It could further contribute to the greater economic stability and sustainable growth (UNCTAD, 2025).

The tensions between the Jewish and Arab populations in Palestine have been ongoing since the beginning of the British Mandate for Palestine in 1922 (Giant, A, 2018). The conflict transformed after Israel declared independence in 1948. In the period until the end of the 1980s, there were a total of 7 complicated conflicts in which Israel fought with Egypt, Jordan, Syria, the Arab Volunteers formed in Lebanon, as well as Palestinian organizations such as the PLO and Hamas.

In 1988 in Algeria, the PLO led by Yasser Arafat declared its independence (Kattan V, 1990). This was followed by recognition by dozens of countries (mainly from the Eastern Bloc or gravitating towards it). The declaration of independence of Palestine put the confrontation on a new footing. An important aspect here is the First Intifada (held between 1987 and 1993). At that time, the Persian Gulf War also took place, which began after Iraq's invasion of Kuwait and provoked the reaction of the international community, which led to Operation Desert Storm. Yasser Arafat's support for the regime in Baghdad (Iraq) led to the cooling of some Arab countries (which supported Kuwait) towards the PLO. Arafat was isolated in a way, and the organization he led provided the basis for starting negotiations. The beginning of the process was started at the Madrid Peace Conference of 1991, which did not achieve a result, but gave rise to negotiations. The subsequent negotiations and the agreements reached are known as Oslo I and Oslo II. At them, Israel officially recognized the PLO as the representative of the Palestinian people. In 1994, on the basis of the Oslo Accords, the Palestinian Authority was established with the administrative center (capital of sorts) the city of Ramallah, located in the West Bank. The Oslo II Agreement divided the territory of the Palestinian Authority into three areas: A, B and C. Area A, comprising 18% of the West Bank, consisting mainly of urban areas, is administered entirely by Palestine, both in terms of civil and security matters. In Area B, about 22% of the territory (mostly rural areas), control is divided: the civil administration is Palestinian, and security is administered by Israel. Area C is the largest, covering about 60% of the West Bank. Here Israel exercises full control, both in terms of civil and security matters.

The Oslo Accords provide for the possibility of initiating a legislative process in the Palestinian Authority, as well as the establishment of courts (U.S. Department of State, 2021). The Basic Law of Palestine (in effect its constitution) was adopted in 2002 by the supreme legislative body of the Palestinian Authority.

The Basic Law is based on Islamic religious law (Sharia). Arabic is declared the official language, and Jerusalem is designated as the capital. A guarantee of equality before the law, prohibition of discrimination, and fair trial is declared.

The judicial system of the Palestinian Authority, regulated in Articles 97-106, includes three main components: 1. Courts established by the adopted law. 2. Sharia courts. 3. Military courts (Euro-Arab Judicial Training Network, 2023)

The first category is organized as follows:

"Magistrates' courts". These are jurisdictions that hear civil cases with lower material interest and criminal cases with a lower degree of public danger. The next level is again the first instance. Here, the courts hear cases with higher material interest (civil) and higher degree of public danger (criminal). These courts have jurisdiction over all disputes that are not explicitly stated as being under the jurisdiction of the magistrates.

Appellate Court. It checks the legality of the judicial acts of the "magistrate" and "first instance" courts. There is a peculiar division here. The first group of appellate courts examine cases that have been decided by the magistrates as the first instance. There are also the so-called. Main Courts of Appeal, which check the acts of the first instance courts.

The Supreme Court is also composed of two states:

Court of Cassation - it does not collect evidence, but checks the legality of the decisions of the appellate courts. It is competent to comment on cases in which it has been referred to with complaints from the appellate instance - criminal and penal, as well as, in some cases, of a personal nature, when the parties are not Muslims.

High Court - examines administrative cases (a kind of supreme administrative court), which examines not only administrative, but also labor cases.

Specialized Courts

Anti-Corruption Court:

This is a specialized judicial institution that hears cases related to corruption in the administration. The court was established in 2010 based on the Anti-Corruption Law of that year.

Election Court

It examines complaints against the legality of the electoral process in all its stages and aspects.

Municipal Courts

They examine disputes filed by citizens and municipal administrations regarding local self-government.

Religious (Sharia) Courts

These institutions examine cases that deal with issues of a personal nature. In this case, it is a specific judicial system that consists not only of decision-making bodies (courts), but also of prosecutorial institutions (similar to the prosecutor's office). Similar to Sharia courts, there are also those that examine disputes of the same nature, but between Christians (U.S. Department of State. 2024).

Military Courts

This is a separate structure that examines cases regarding people from the security system who have committed crimes. It consists of a military prosecutor's office and military courts. Although suffering from a number of shortcomings, expressed mainly in the inability of legislation to adapt to the dynamics of public relations, the basic law, the regulations and acts adopted on its basis, and the constructed judicial system lay the foundation for an environment in which stability, security, and predictability can be worked on.

CONCLUSION

The territory of Palestine (which is not yet unequivocally recognized as a state) has the prerequisites to set an example of how the regulatory framework and institutions should be built in the process of transition from limited to full sovereignty. At present, the financial system is functioning under conditions of strong external influence - the use of foreign currencies, which are subject to economic processes flowing beyond the area of control and influence of Palestine, limits the possibility of an independent economic policy.

Regardless of the above, the current legal and institutional system is a prerequisite for creating conditions for stability and predictability, which in turn is the basis for sustainable economic development.

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